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December 9, 1996

Mr. William Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

Ex Parte: Federal-State Joint Board on Universal Service, CC Docket 96-45

Dear Mr. Caton,

In accordance with Commission Rules, please be advised that today representatives of GTE met with Mr. Charles Bolle of the South Dakota Public Utility Commission, Mr. Brian Roberts of the California Public Utility Commission, Mr. Paul Pederson of the Missouri Public Service Commission, and Mr. Brad Wimmer, Mr. Bill Sharkey, Mr. David Krech, Ms. Emily Hoffnar, Mr. Larry Cole, and Mr. Bob Loube of the Common Carrier Division to discuss the cost model workshops to be held in conjunction with the proceeding listed above. Attached is a copy of the handout that was provided in the meeting.

If you have any questions regarding this matter, please call me at (202)463-5293.

Sincerely,

W. Scott Randolph
Director - Regulatory Affairs

cc: Mr. Charles Bolle - South Dakota Public Utility Commission
Mr. Brian Roberts - California Public Utility Commission
Mr. Paul Pederson - Missouri Public Service Commission
Mr. Brad Wimmer
Mr. Bill Sharkey
Mr. David Krech
Ms. Emily Hoffnar
Mr. Larry Cole
Mr. Bob Loube

WORKSHOP STRUCTURE SUGGESTIONS

Orient Workshops around clear, pre-defined objectives

- Model Checklist

Focus of Workshops:

- Models - How they work. What goes on inside.
  - Functional approach
  - Effects of Model structure
- Input Data - What it is. Where it's from.
  - Level of aggregation
- Validation - Reserve time for presentations by "other" experts
  - Sanity Tests
  - Coherence of model's economic scenario

Avoid:

- Sessions to formulate consensus list of economic costing definitions/principles
- Sales pitches

WHAT CONSTITUTES A GOOD LEC COST MODEL?

(AND HOW CLOSE CAN WE GET, GIVEN CONSTRAINTS?)

- Comprehensive Network Functionality & Support
- No Mysteries
- Documented Data Inputs/Sources
- Passes Sanity Checks
- Coherent Economic Scenario

COMPREHENSIVE NETWORK FUNCTIONALITY & SUPPORT

- Network Has to Work, As An Engineering Construct
  - ◊ All piece parts present
  - ◊ Appropriate linkages
- Firm Has to Work, As A Service Provider
  - ◊ Support systems in place
  - ◊ Overheads accounted for

NO MYSTERIES

- No Black Boxes
  - ◊ An equation set has to be available
    - * Provided in documentation
    - * Recoverable from electronic version
- Documented Data Inputs/Sources
  - ◊ Parameters
  - ◊ Input prices
    - * Public, where adequate
    - * Auditable, where proprietary

PASSES SANITY CHECKS

- Verified; i.e., Code Does What It Purports to
- Sensitivity Tested
- Validated
  - ◊ It's in accord with reality on the ground
  - ◊ The proof is in the predictions
- It's a Cost Function!

COHERENT ECONOMIC SCENARIO

- What Economic Cost Construct Does It Estimate?
- What Kind of Firm Is This?
  - ◊ Real incumbent, with checkered past?
  - ◊ Anonymous new entrant, with checkered future?
- How Does Model Handle Technology?
  - ◊ Lumpiness
  - ◊ Rapidly changing
- How Does Static Model Deal with the Future?
  - ◊ Growth
  - ◊ Capital replacement
  - ◊ To what point in time do results apply?